332.5
J826w

The world's experience of government paper money.

UNIVERSITY OF ILLINOIS
LIBRARY

Class 333.5 Book J826w Volume

Ja 09-20M

ECONOMICS
DEPARTMENT

2.5
89
pam

FROM
Sound Currency Comm.
52 William Street
N. Y.

332.5
J826w

THE WORLD'S EXPERIENCE

OF

GOVERNMENT PAPER MONEY.

Digitized by the Internet Archive
in 2016 with funding from
University of Illinois Urbana-Champaign Alternates

https://archive.org/details/worldsexperience00jour

The World's Experience

OF

GOVERNMENT PAPER MONEY.

A SERIES OF EDITORIAL ARTICLES

PUBLISHED IN THE

New York Journal of Commerce and Commercial Bulletin,

NOVEMBER 21 and 25 and DECEMBER 4 and 12

1896.

I. RUSSIA.

A great many people are blind to the danger of making the demand notes of the Government the basis of a national currency because they are unfamiliar with the experience with paper money of any nation but our own. In dealing even with this they are apt to recall the dangers and inconveniences of the unregulated system of State bank issues that preceded the era of the greenbacks and the national banking system that grew out of the necessities of the war, rather than the lasting injury inflicted on public credit by the costly and demoralizing expedient of making a forced loan on the people by means of demand notes dishonored in the act of making them. We propose to offer a contribution to public education on this subject by passing in review the experience of other nations than our own with this disastrous expedient, and by showing how uniform has been the failure of all attempts to erect a solid structure of sound currency on so utterly insecure a basis. The experience of Russia with which we begin this series of articles will be found to supply an instructive lesson and an impressive warning.

It was in 1768, under a decree of the Empress Catherine, that two banks were called into being to place in circulation paper money issued by the State. The apology for the issue of this money, known as assignats, was the need of a more convenient form of money than the silver and copper then in use and of an increase of the circulating medium. The notes were not made a legal tender, and due provision was made for their redemption in silver on demand. The system was started under the fairest auspices, was surrounded by careful precautions against its abuse, and might have been cited as an example of the intelligent forethought which a paternal government bestows on the welfare of its citizens. But it was

P560 P3019

the introduction of the head of the camel into the tent of the Arab, and it had the usual sequel.

The regime of prudence lasted for eighteen years, these things not marching so quickly a hundred years ago as they do in our day. In 1786 the paternal heart of the Government had a new prompting, of the kind so warmly approved in the State of Kansas. An issue of 60,000,000 of roubles was ordered, of which 22,000,000 were to be employed in making loans to the nobility and 11,000,000 in loans to cities. The two original banks were at the same time consolidated with the loan bank of the Empire, and the institution thus created was relieved of the necessity of compulsory redemption of the notes of the State because the new currency was secured only in part by a metallic reserve, the rest being issued against mortgage loans. As a counsel of perfection, however, it was decreed that the issue of assignats should never exceed 100,000,000 roubles. The promise was kept just four years, and in 1790, when the French Revolutionary Government began to disturb the peace of Europe, the limit was passed by 11,000,000. After that came the deluge. By 1793, the year of Catherine's death, 157,000,000 had been issued; in 1800 the amount was 212,000,000, and by 1810 the paper circulation, based solely on the credit of the Government, had reached a total of 577,000,000 roubles.

Of course the interval between the value of metallic money and that of the assignats increased with each succeeding issue. In 1793 the difference was forty-five per cent, by 1807 the silver rouble of 100 copecks was worth 164 in paper, in 180 it rose to 200½, in 1810 to 401, and in 1812, the year of Napoleon's march to Moscow, it reached 423, so that the assignat rouble was worth only 23½ copecks in silver. The demoralization of all prices was ruinous to both producers and consumers, and the State Treasury which was bound to receive the assignats at par in payment of taxes began to pay the price of financial recklessness. To cover the steadily increasing deficiencies in its revenue the State issued more paper, merely with the result of enlarging them, because the greater the inflation in the volume of the circulation the greater the shrinkage in its value. So finally, in 1812, the last prop was removed from the paper rouble by the refusal of the Government to recognize its assignats as a legal tender to the Treasury. As the edifice of national credit began to tumble, plans were made to build another on a more solid foundation. Thus, by an Imperial decree of 1810, it was provided that the silver rouble should be once more the only legal money, and a loan was issued for the purpose of substituting interest-bearing bonds for part at least of the forced loan in the shape of inconvertible paper that had been imposed on the people. The scheme fell through, and with the renewal of the Napoleonic wars came fresh issues of assignats till their amount reached the impressive total of 800,000,000 roubles.

Meanwhile the value of the paper rouble kept on the average at about 25 per cent of its face value. Several years after the issue ceased, it began slowly to appreciate, reaching 28 per cent in 1840, twenty-five years after the conclusion of peace and twenty-three years after the maximum of paper issue was reached. The generation to whom the assignats were issued had clearly been cheated out of some 600,000,000 of roubles by the failure of their Government to keep its promises to pay. Between 1817 and 1820 the Government took some measures to buy back, by the aid of foreign loans, its dishonored paper. But it took it up at the market price of four paper roubles to one of silver, and thus at a moderate outlay reduced the amount of assignats outstanding from 800,000,000 to 595,000,000 roubles. But it was not till 1839 that the attempt was seriously made to reform the currency. A decree of that year provided that for the future silver money should be the only legal tender, that all taxes and private debts should be estimated and paid in that money, and that the ratio between the silver and the assignat rouble should be fixed, once for all, at 1 to 3½. This was followed in 1841 by a decree creating a new form of note—the credit rouble—which has existed from that day to this, and in 1843 by another calling for the retirement of all outstanding assignats in exchange for the new form of bill at the rate established in 1840.

The new system, like the old one, began under the most favorable auspices. A discredited form of currency, worth only

28 2-7 of its nominal value, had been driven out of circulation and in its place there was a brand new note of the Government, exchangeable on demand for silver, and quite on a par with the paper money of the richest countries of Europe. The credit rouble had its origin in the issue of bills on the deposit of silver. As the deposits increased and few demands were made for payment, it was determined that a specie reserve of one-sixth of the amount issued was sufficient to secure the paper circulation. Thus, for the 180,000,000 of credit roubles issued to retire 595,000,000 roubles in assignats, the sum of 30,000,000 roubles in silver was deemed sufficient security. There was a tempting ease about this method of supplying money with which to conduct the Government. So in 1849 a supplementary issue of 20,000,000 was ordered, and in 1853 another of 40,000,000 roubles. Then came the Crimean war and a difficulty in negotiating loans abroad, compelling the Treasury to meet all extraordinary expenses by "temporary" issues of bills of credit. It was formally decreed that at each issue the Treasury was to deposit with the issuing office one-sixth of the sum in metal, and that these temporary bills were to be retired within three years after the close of the war. The bills are in circulation yet. The volume of paper money which had been 250,000,000 roubles after its first increase in 1853 was 509,000,000 at the end of 1855, and by the time the authority for the issue of "temporary" bills was rescinded the amount had reached the total of 725,000,000 roubles.

Among the reforms attempted but not achieved by Alexander II. was that of the currency. A plan for the resumption of specie payments formulated in 1862 proved a failure, primarily because the coin resources of the Government were inadequate and there was a great redundance of paper. In less than ten years the circulation had been increased almost threefold, an increase demanded not by any commercial or industrial necessity but simply by the needs of the Treasury. The harvest of disaster was not slow in ripening. As a German observer said in 1865: "The condition of Russia is immeasurably sad, not to say hopeless. Paper money is depreciated by one-fifth, despite its legal tender value; gold and silver have disappeared; there is practically no credit; discount rates are high; there is an annual deficit; trade is nearly at a standstill, and capital is exhausted almost to the last penny; prices are immoderately high; the nobility is ruined, the capital city and trade centres are in visible decay." It has taken about thirty years to extricate Russia from that slough. The volume of paper money was increased by the issue of some 400,000,000 roubles in the last war with Turkey, 1876-77, but the foundations of a gold reserve were laid before that time, and the edifice has today attained such proportions that Russia has in the coffers of the bank or of the Treasury one gold rouble for every two paper roubles outstanding. In the last twenty-five years the exchange value of the paper rouble has fluctuated wildly, being at times as high as 87 copecks—par being 100—and at times as low as 52. The redemption of the paper rouble, originally payable in silver, is to be effected, as already explained in these columns, in gold at the rate of 66 2-3 copecks to the rouble, and Russia is about to close her long and disastrous experiment with a currency of Government paper by decreeing that, henceforth, no bills of credit shall be issued on account of the Treasury. These facts may be commended to the study of those who have become infected with an infatuation for the greenback and the Sherman note. They are quite incompatible with the theory that Government paper is either a safe or a sound form of currency.

II. ITALY AND SPAIN.

We have seen, in the case of Russia, the Government of a great empire about to surrender, after a costly experience of 130 years, the right to issue its own notes to serve the purpose of a national currency. Every step taken toward this end has marked an improvement in public credit and an advance in the development of commerce and industry. In the two countries to whose experience we devote this article the converse of the Russian policy is being followed, and Italy is steadily and Spain very rapidly drifting towards hopeless bankruptcy. In both the credit of the banks has become merged with the credit of the Government, in both the Government has exercised the right to drain the resources of the banks at its pleasure, and in both cases the penalty paid for the identification of two interests which can never be safely conjoined has been out of all proportion to the temporary advantage gained by the arrangement made between them.

It is Pierre des Essars who says very aptly, in his treatise on Banking in the Latin Nations*: "There is a treacherous enemy who lays pitfalls for prodigal governments and for the banks which lack stamina to resist the State's intrusion; this enemy is called Exchange, and it is the dial of national decline of credit. This exchange arrests all commerce and makes trading a speculation on the country's money. This exchange impoverishes, day by day, whoever receives an unsound bank note; it makes such money melt like snow, and like snow it trickles from the hands." The monetary unit which is called a franc in France is called a lira in Italy, and the par of exchange of both is precisely the same, say, 5.18⅛ to the dollar. But a reference to the current quotations for European exchange will show that while the rate for a banker's sight draft on Paris is fr. 5.19⅜ to the dollar, the same kind of draft on Italy commands lire 5.46¼ to 5.56¼ per dollar. The difference marks the depreciation which has already taken place in the Italian currency—a depreciation caused by the issue of paper through the banks on the credit of the Government, and which, very largely because of this issue, the Government is powerless to cure.

The first raid which the Kingdom of Italy made on the banks was in the form of a loan of 300,000,000 lire in notes from the National Bank in 1872. There followed in 1874 the paper loan of the syndicated banks, amounting to 1,000,000,000,000 lire, for which six then existing institutions of credit made themselves responsible. This paper, which was of all denominations from half a lira, or ten cents, to 1000 lire, or $200, was made a legal tender throughout the Kingdom, the notes of the individual banks being a legal tender only in the provinces where the offices and branches of the banks were situated. The forced currency of the syndicate notes which was limited to two years was finally extended to seven. In 1881 the syndicate was dissolved and the Government negotiated a loan for the redemption of the notes. All that were in circulation were considered a Government debt and continued to be a legal tender for the whole Kingdom, but were to be redeemable in coin on presentation. There are still in circulation over five hundred millions of lire of Government paper in notes of from one lira to five lire, but it has not been kept at par with gold.

The reason for this is not far to seek. It was in the beginning of 1894, when the monetary situation was going from bad to worse, that the Minister of Finance and of the Treasury proposed the remedy which always suggests itself in such cases—the issue of more Government paper. His idea was to issue another 600 million lire in denominations of 5, 10 and 25, to be secured by 200 million lire of gold belonging to the banks which should be placed at the State's disposal and held as reserve. In place of the 200 million thus taken from the banks the State was to deposit its notes and the banks were to be allowed to count them as so much metallic reserve on which they could issue

* Contained in "The History of Banking in the Leading Nations," published at this office.

notes in the proportion of three to one. While the Government may issue 600 million of paper on the strength of the 200 million in gold taken from the banks, and still be within the three to one rule, it is plain that the security of the bank note circulation must be to that extent impaired. The scheme which is known as the decree of February 21, 1894, is one of inflation pure and simple, and hangs like a threatening cloud over Italian credit. The fifth article of the same decree contains this concession to the difficulty of maintaining specie payments under such circumstances,—in case of notes being presented for redemption the banks have the right to demand the benefit of the premium quoted on the Exchange, so that if the premium on gold be 10 it requires notes for 110 lire to procure 100 lire in gold.

With a currency exposed to an indefinite amount of depreciation at the caprice of the Government, and a debt of over $2,500,000,000 crushing it to the earth, it requires a somewhat robust faith to believe in the financial recovery of Italy.

The case of Spain absolutely precludes the exercise of faith. Here the Government has hopelessly demoralized one of the strongest and most profitable banking institutions in Europe by making a forced loan on it whenever the occasion arose. That it has arisen very often may be inferred from the fact that the note circulation of the Bank of Spain, which in 1885 was 424,000,000 pesetas (francs), rose to 740,000,000 in 1890, was 931,000,000 in 1894, and is considerably over 1,000,000,000 to-day. There has been no increase of Spanish commerce to warrant this increase of circulation; it is purely and solely a forced loan to the Government. The charter of the Bank of Spain dates from 1874, and when it was granted it was stipulated that the bank should only negotiate public securities or make advances to the State upon substantial guarantees which could be readily converted into funds. When the term of the charter was extended in 1891 the bank was compelled to lend to the Treasury 150 million of pesetas, without interest, reimbursement of which cannot be demanded till 1921.

The assets against the circulation of the Bank of Spain includes 275 millions of silver worth fifty per cent of its face value and 720 millions of the obligations of a State heavily in debt, and with virtually no credit abroad. The bank is always ready to pay out the five peseta piece—the duro—but refuses to pay in gold, so that, as nobody wants silver, the country is practically under a regime of inconvertible paper. Spain is not in the Latin Union, so that her silver does not circulate outside of her own borders. In point of fact the bank notes, redeemable only in silver, are worth more than the bullion value of the silver coins—the discount on them being not 50 per cent as it would be if their value was accurately measured by the equivalent silver, but only 20 per cent at the present time. Of course the depreciated silver and paper money have driven away good money, gold pieces being quite unknown in the circulation of the country. The signature of the bank is worth something on its notes, as the facts cited show. but the credit and resources of the bank are so absolutely at the mercy of the Government that every fresh blow which the credit of the latter receives tends still further to depreciate the bank paper.

If our silver advocates were right in the assumption that a high rate of exchange against a country serves to develop its industries and stimulate its foreign commerce, Spanish trade would be flourishing. But it has for years been seriously depressed, and instead of the depreciated currency stimulating exports the imports of Spain are, in spite of almost prohibitory customs duties, always in excess of the exports. Briefly, to quote the pithy comment of M. des Essars, "Spain suffers from the mistake which economists fight in vain—the error that the Government can do as it pleases with the money and the credit of the country. Laws do not change the nature of affairs, and if matters are handled contrary to nature, immediate and sudden countershocks show that mistakes have been made, and those who danced must pay the piper." With the decline of Spanish credit the depreciation of the national money keeps steady pace, and concurrently with both goes on the process of commercial dislocation and industrial paralysis, with the goal of general bankruptcy not dimly in view in the near future.

III. FRANCE.

It has been said apropos of the financial policy of the Committee of Public Safety of the French Revolution, that demagogism has an instinctive hatred of all credit institutions, understanding none of them, and seeing in them all nothing but instruments of speculation and fraud. We stop to wonder at the excesses of the reign of terror and almost fail to recognize them as human, yet the attitude toward a number of social and economic questions of the Government which sanctioned them did not essentially differ from that of a party whose candidates have just received the support of 6,400,000 people in the United States. The vindictiveness with which the National Assembly and its successor the Convention pursued the Discount Bank of Paris finds an echo in the declaration of the Chicago platform denouncing the issue of notes intended to circulate as money by National banks "as in derogation of the Constitution," and in the twin declaration made by the Populists at St. Louis, "we demand a national money issued by the general Government only, without the intervention of banks of issue, to be a full legal tender for all debts, public and private."

The French National Assembly was like the party that nominated Bryan, very deeply impressed with the scarcity of money. Having sequestrated the church lands it seized on the idea of making them and the property of the crown the basis of an issue of Government paper. This was the origin of the assignats whose history is known of all nations, but has been heeded by few. They were, originally, interest-bearing mortgage bonds, secured by the royal and ecclesiastical estates and redeemable by the product of these properties. Of the first four hundred million of francs of these obligations issued in 1789 the rate of redemption was duly prescribed. There were to be 120 millions cancelled in 1791, 100 millions in 1792, 80 millions in 1793-4, and the remainder in 1795. They at first bore interest at five per cent, but this was reduced in 1790 to three per cent; they were, further, made a legal tender between individuals, and all public departments were directed to receive them as the equivalent of specie. The new notes were popular, and, as is customary in such cases, the Government concluded that the people could not have too much of a good thing. Issue succeeded issue, till within two years and a half after their first appearance there was 2,385,000,000 francs in nominal value of them outstanding.

Combining the two fatal qualities of redundancy and lack of security, the assignats rapidly depreciated. The Convention thought it could arrest the downward course of the paper money by ›nal legislation. Our own Populist con-ventions revived the same idea when they demanded "such legislation as will prevent the demonetization of the lawful money of the United States by private contract." The Revolutionary Junta provided a penalty of six years' imprisonment for all sellers of coin who should exchange a given amount of gold or silver for a nominally greater amount of assignats, and the same penalty was imposed on merchants who should sell their goods at one price in assignats and at another in coin. Nevertheless, in June, 1793, a silver franc was worth three, and in August worth six, francs in assignats. It was a great opportunity for debtors, of which the State was chief. Obligations which had been incurred in money of full value were paid off in this depreciated currency at its face value to the impoverishment and ruin of creditors. Working people discovered that they too belonged to the creditor class, and being unable to force their wages up as fast as assignats went down, they soon found that they were not getting enough to buy the actual necessaries of life. By a confusion of ideas, not absolutely unknown since that time, they laid their troubles on the merchants, and demanded that these avaricious persons who would not give a franc's worth of goods for a fictitious franc worth only 20 centimes should be sent to the guillotine.

By way of relieving popular distress the Convention tried its hand at fixing prices. It decreed that the maximum price of a quintal of wheat should be fourteen livres, and the prices of other articles of necessity were fixed in proportion, dire penalties being promulgated against all who should trade in disregard of the law. The result was that trade ceased almost entirely, what was done being mostly conducted in secrecy. Briefly, the law was a signal failure, and its repeal was found to be imperative. The fact that the issues of Government paper went on gaily had something to do with precipitating this decision. Some of the wild projects of our Populist legislators which may be found on the files of the last two Congresses call for more paper money than the Convention authorized, but save by comparison with this merely contemplated lunacy the record of the French Revolutionary Government is a very remarkable one. In five years 8,000 millions of francs had been issued, of which 2,464 millions had been returned to the Treasury and cancelled, leaving 5,536 millions in circulation.

But the freedom with which the Convention used the printing press to make money was conservatism itself beside the performances in this line of its successor, the Directory. Between the 27th of October, 1795, and the 18th of February, 1796, there was issued more than 20,000 million francs of new assignats. By December, 1796, the issue reached 30,000 million francs, and by February, 1797, it was 45,500 millions, of which 20,000 millions were in the hands of the public. A computation was made in 1894 of the cost of some of the schemes proposed in our Senate and House of Representatives by Populist members, and the total footed up to $35,507,300,000, which shows how easy a superiority American Populism at its best has over the most ambitious flights of French Jacobinism. When the limit of saturation was finally reached under the Directory a new form of Government paper, known as land warrants, were issued to take their place. The assignats were gradually cancelled till their amount finally shrunk to 24,000 millions, and this amount was made convertible into 800 million francs of land warrants, that is in the proportion of thirty to one. The new obligations whose total issue amounted to 2,400 million francs constituted a lien on all the lands of the Republic, certain forest lands excepted, but they were so little esteemed that they were at a discount of eighty-two per cent on the day of their issue. When they lost ninety-nine per cent of their value, as they did within a year, they were withdrawn from circulation. The last act in this drama of public spoliation was the "readjustment" of the national debt by the repudiation of two-thirds of it, the remainder being inscribed on the great book of the State as the "consolidated third."

Thus, as Pierre des Essars remarks, from whose chapter on the Assignats in the History of Banking in France (published by "The Journal of Commerce and Commercial Bulletin") we have taken the figures above quoted, "the issue of State paper money ended in bankruptcy after bringing untold evils upon the State." The lesson was not lost on the French people, the creation of the Bank of France on a solid basis of financial responsibility, being the work of the Consulate and an especial care of Bonaparte's. But other nations have tried the same experiment of confiding the dangerous power of issuing paper money to the Government as if it had never been pushed to its logical conclusion before the eyes of an astonished world. What the Populist cranks ask and expect of it here ought to be warning enough of the mischief which is inherent in any toleration of the system. No government can safely abrogate its function of being the protector of its people against debasement of the currency. When its stamp ceases to mean that the coin which bears it is exchangeable at its face value in the markets of the world it has entered on the path that leads to repudiation; when it begins to make money on the basis of its own credit it challenges distrust and places the whole fabric of public and private credit at the mercy of a temporary necessity or a casual outbreak of triumphant demagogism.

IV. BRAZIL AND ARGENTINA.

Brazil is a country of incalculable natural resources. With an area greater than that of the United States, its range of products is quite as extensive and the labor required to extract them from the soil very much less. Its two great exports of coffee and rubber have returned for years enormous profits. It was believed twenty years ago that the rubber trees could not be made to yield without exhaustion more than 8,000 tons a year, but now the annual production has risen to from 20,000 to 21,000 tons. The average coffee crop of Brazil is from 5,000,000 to 6,000,000 bags, but this year the crop will probably be found to be from 8,000,000 to 9,000,000 bags, and though the price has gone down the average return to the planter is more than it was when his profits made him the most fortunate among agriculturists. A dozen reasons might be given why Brazil should have grown rich and still be growing richer, but they are all neutralized by the one fact, that its Government discharges its obligations in paper promises to pay, and that the bank currency is based on the discredited security of the Government.

For a generation Brazil has been on a paper basis, specie payments having been suspended in 1864. But up to the fall of the Empire the note circulation was kept within $100,000,000, and in 1880 paper was held in preference to gold. Between 1889 and 1891 another $150,000,000 of unsecured paper was issued, and the whole volume outstanding depreciated to one-third of its par value. The Bank of the Republic of Brazil—the product of a union in 1892 of the two chief banks of issue—is nominally responsible for the paper circulation, but the ultimate liability rests with the Government. The Republic had not been three years in power when the amount of Government paper, exclusive of bank notes, in circulation amounted to $116,000,000, reckoned at the par of the milreis. A little over a year later, by the end of 1893, it had reached $154,000,000; and in March, 1895, it was $198,000,000. At the latter date the bank issues amounted to $184,000,000, as nearly as could be ascertained, making a total paper circulation of at least $382,000,000, with nothing save its forced currency and the remains of the shattered credit of the Government to keep it from becoming absolutely worthless.

For years the exchange value of the milreis has been steadily downward, and it requires to-day about 300 milreis in paper to buy 100 milreis in gold. While the process of depreciation was going on business was, of course, a perpetual gamble. Men realized how the paradox could become a truism that the more money they gained the poorer they became. A currency that shrinks in purchasing power in the pocket of the possessor means ruin not only to the State that legalizes it but to the people who use it. Habits of reckless extravagance are not the least of its penalties, and a condition of universal distrust is its inevitable end. Brazil is reaping to-day the harvest of bankruptcy which she has so diligently sowed, and the fruit is all the more bitter because there is distress in the midst of plenty and poverty under conditions well calculated to assure the possession of wealth. The crisis in Brazil is doubtless aggravated, and recovery from it will be less easy because of the incapacity, selfishness and corruption which are the bane of South American Republics; but the primary cause of it all is that most corrupting of all governmental powers—the power to make money out of printed promises to pay, dishonored in the act of making them.

The troubles of the Argentine Republic have sprung from the same source as those of Brazil, though there have been characteristic differences in the methods of creating them. Here the greed of the politicians and the extravagance of the Government have been supplemented by the desire to make popular capital by liberal loans to the farmer. What the result has been is best told in the words of the last annual report of the United States Consul-General at Buenos Ayres on the commerce and finances of the Republic. The Hypothecary, or land mort-

gage bank, of the Province of Buenos Ayres has outstanding "cedulas" amounting to $187,591,698 in currency and $3,330,000 in gold. But the lands on which the mortgages were placed are either valueless or they are valued at three times more than their present market price. The securities, taken altogether, are thought to be worth about 20 cents on the dollar. The National Hypothecary Bank has outstanding $74,966,650 in currency cedulas and $12,291,200 in gold, the value of the former being estimated at 50 cents on the dollar. These cedulas form part of the circulation, and like the notes of the National banks are reckoned among the obligations of the Government.

What the Consul-General does not state is that when this mass of mortgage loans was issued the lands were deliberately overvalued by the agents of the Government, that after deducting the commission of the bank probably a third of the amount realized went to the politician who had sufficient "pull" to get the loan, and that the farmer got only the remainder. The Government's engaging in the banking business was the first step downward, the rest was easy. The Provincial Governments have followed the lead of the National Government in this respect, and now the Republic is expected to assume the responsibilities of all of them. The combined circulation of national and provincial banks amounts to some $290,000,000, and their notes are worth about 30 cents on the dollar. Reducing the currency to gold at 320 dollars to 100 dollars, the total debt of the nation and of the provinces, including the notes of the banks for which the Government holds itself responsible, amounts to $714,500,000—all to be borne by a population of but little more than two-thirds of that of New York.

The Argentine Republic has, obviously, drawn on the future with a recklessness which leaves even that of Brazil far behind. But like Brazil the instrument of its ruin has been the lending of the name of the Government to the manufacture of paper money. The present situation of the country is very mildly indicated in these statements of Consul-General Baker: "The rate of taxation which the Government is forced to levy, in order to pay even a limited proportion of the interest on its bonded indebtedness, is already having its effect upon the people and the industries of the country; and it is well understood that the taxes, in all their various guises, are now so heavy that capital already invested here is no longer able to pay dividends, and there are but few persons who are willing to make new investments except in such lines of industry as the absolute necessities of the nation require." When a government is compelled to buy gold to meet its obligations abroad out of the proceeds of taxes payable in a depreciated currency it begins when too late to learn how costly a device its paper money is, either to tide over a time of pressure or to help develop the country. The Argentine Republic has had five years of hard times, and the penalty for the financial debauch that marked the few preceding years of seeming prosperity is still very far from being paid. The blight that fell on its fortunes was partly due to public dishonesty, but that was fostered, encouraged and expanded out of all common proportion by the acceptance of the theory that everybody could become prosperous if only there was issued enough paper money to go round bearing the stamp of a legal tender and the capacity to discharge dues to the public Treasury.

UNIVERSITY OF ILLINOIS-URBANA
3 0112 059104676